
Community Social Services Block Grant for the date of service.

Program. "Program" means those functions and activities of the facility that contribute to the care, supervision, developmental growth, and skill acquisition of the residents under state and federal laws.

Program director. "Program director" means the person who supervises individual program planning and program activities related to carrying out the individual program plans.

Provider. "Provider" means the corporation, governmental unit, partnership, person, or persons licensed to operate the facility, which controls the facility's operation, incurs the costs reported, and claims reimbursement under Sections 1.010 to 17.060 for the care provided in the facility.

Provider group. "Provider group" means a parent corporation, any subsidiary corporations, partnerships, management organizations, and groups of facilities operated under common ownership or control that incurred the costs shown on the cost report which are claimed for reimbursement under Sections 1.010 to 17.060.

Rate year. "Rate year" means the period for which the total payment rate is effective, from October 1 to September 30.

Related organization. "Related organization" means a person that furnishes goods or services to a facility and that is a close relative of a provider or a provider group, an affiliate of a provider or provider group, or an affiliate of a close relative of an affiliate of a provider or provider group. For the purposes of this definition, the following terms have the meanings given them.

A. "Affiliate" means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with another person.

B. "Person" means an individual, a corporation, a partnership, an association, a trust, an unincorporated organization, or a government or political subdivision.

C. "Close relative of an affiliate of a provider or provider group" means an individual whose relationship by blood, marriage, or adoption to an individual who is an affiliate of a provider or provider group is no more remote than first cousin.

D. "Control" including the terms "controlling", "controlled by", and "under common control with" means the possession, direct or indirect, of the power to direct or cause

the direction of the management, operations, or policies of a person, whether through the ownership of voting securities, by contract or otherwise.

Repair. "Repair" means the cost of labor and materials needed to restore an existing capital asset to sound condition after damage or malfunction or to maintain an existing capital asset in a usable condition.

Replacement. "Replacement" means a renovation or substitution of an existing capital asset to improve its function or extend its useful life.

Reporting year. "Reporting year" means the period from January 1 to December 31 immediately preceding the rate year, for which the provider submits its cost report, and that is the basis for the determination of the total payment rate for the following rate year.

Resident day. "Resident day" means a day on which services provided to residents are rendered and billable, or a day for which a bed is held and billed.

Respite care. "Respite care" means short-term supervision, assistance, and care provided to persons with mental retardation or related conditions due to the temporary absence or need for relief of the caregiver who normally provides these services and is not an institutional provider.

Top management personnel. "Top management personnel" means owners, corporate officers, general, regional, and district managers, board members, administrators, the facility administrator, and other persons performing executive functions normally performed by such personnel, whether employed full time, part time, or as a consultant. The facility administrator is the person in charge of the overall day-to-day activities of the facility.

Total payment rate. "Total payment rate" means the amount established by the commissioner to reimburse the provider for service provided to each resident. The total payment rate is calculated by adding the total operating cost payment rate, the special operating cost payment rate, and the property-related cost payment rate.

Useful life. "Useful life" means the length of time a capital asset is expected to provide economic service before needing replacement.

Vested. "Vested" means the existence of a legally fixed unconditional right to a present or future benefit.

Working capital loan. "Working capital loan" means a debt incurred to finance a facility's operating costs. A working capital loan does not include a debt incurred to acquire or refinance a capital asset.

Working capital interest expense. "Working capital interest expense" means the interest incurred on working capital loans during the reporting year.

SECTION 2.000 GENERAL REPORTING REQUIREMENTS.

Section 2.010 Required cost reports. No later than April 30 of each year, the provider shall submit an annual cost report on forms supplied by the Department in order to receive medical assistance payments. The reports must cover the reporting year ending December 31, except that for reporting years ending on or after December 31, 1987, (effective January 19, 1988) a provider operating a facility that is attached to a nursing home that is reimbursed under the rate setting requirements for nursing homes may elect to report the facility's costs and statistical information for the period covered by the nursing home's reporting year. If a certified audit has been prepared, it must be submitted with the cost report. In addition, a provider or provider group which has 48 or more licensed beds shall submit an annual certified audit of its financial records obtained from an independent certified public accountant or licensed public accountant. The examination must be conducted in accordance with generally accepted auditing standards as adopted by the American Institute of Certified Public Accountants and generally accepted accounting principles. A government owned facility may comply with these auditing requirements by submitting the audit report prepared by the state auditor.

Section 2.020 Required information. A complete annual cost report must contain the following items:

- A. General facility information and statistical data as requested on the cost report form.
- B. Reports of historical operating costs and property-related costs with supporting calculations and worksheets as requested on the cost report form.
- C. The provider's balance sheet and income statement for each facility prepared in accordance with generally accepted accounting principles unless audited financial statements are required to be submitted. In this case the facility must submit a copy of its audited financial statements for the reporting year. The audited financial statements must include a balance sheet, income statement, statement of retained earnings, statement of changes in financial position, notes to the financial statements, and supplemental information, as required of an audit conducted in accordance with generally accepted auditing standards, and the

certified or licensed public accountant's opinion. If the financial statements are not sufficiently detailed or the facility's fiscal year is different from the reporting year, the facility shall provide supplemental information that reconciles costs on the financial statements with the cost report.

D. Effective for the reporting year ending December 31, 1993, a facility is no longer required to have a certified audit of its financial statements. The cost of a certified audit shall not be an allowable cost in that reporting year, nor in subsequent reporting years, unless the facility submits its certified audited financial statements in the manner otherwise specified in this Section. A facility which does not submit a certified audit must submit its working trial balance as part of the annual cost report.

E. A list of the provider's capital debts and working capital loans outstanding for each facility during the reporting year, the name of the lender, the term of the debt, the interest rate of the debt, interest and principal payments for the current year, and the original amount of each loan.

F. A schedule of the provider's funded depreciation account for each facility.

G. A statement of ownership for the facility, including the name, address, and proportion of ownership of each owner, or a statement that no changes have been made since the last cost report.

If a privately-held or closely-held corporation or partnership has an ownership interest in the facility, the facility must report the name, address, and proportion of ownership of all owners of the corporation or partnership who have an ownership interest of five percent or more, except that any owner whose compensation or portion of compensation is claimed for reimbursement in the facility's cost report must be identified regardless of the proportion of ownership interest.

If a publicly-held corporation has an ownership interest of 15 percent or more in the facility, the facility must report the name, address, and proportion of ownership of all owners of the publicly-held corporation who have an ownership interest of ten percent or more.

H. A list of all related organizations which included costs in the cost report in excess of \$1,000 annually, and a list of all facilities in the provider group.

I. Copies of purchase agreements and other documents related to purchase of the physical plant and land, or a signed statement that no changes have been made in the documents which are on file with the Department.

J. Copies of leases and other documents related to the lease of the physical plant and land, or a signed statement indicating that no changes have been made in the documents on file with the Department. Lease documents must include information on the historical capital cost of the physical plant and land, and the information listed in item D as paid by the lessor.

K. Complete lapsing depreciation schedules.

L. Charts showing staff assignments classified according to the cost categories. The charts must contain the information specified in the cost report form.

M. Documentation of costs included in the payment rate for approved services for very dependent persons with special needs. These costs must be reported on an individual resident basis unless the special needs payment rate was approved for more than one resident.

N. An explanation of all adjustments made by the provider to the cost report and the applicable rule citations.

O. A breakdown of all costs included in the related organization's management fees or central, affiliated, or corporate office costs charged to the provider and the related organization's costs allocable to the facility. The breakdown must contain all costs of items except that related organizations that have a federally approved cost allocation plan which has been documented by the provider, may break down the management fee or central office costs according to the approved plan. The supporting schedules must include the related organization's or the central, affiliated, or corporate office income statement; the cost allocated to each facility, related organization, or nonrelated organization; and an explanation of the method of allocation used.

Section 2.030 Supplemental reports. In order to substantiate the payment rate, the Department may require the provider to provide additional information such as copies of leases, purchase agreements, consultant contracts, income tax returns, etc.

Section 2.040 Method of accounting. The accrual method of accounting in accordance with generally accepted accounting principles consistently applied is the only method acceptable for purposes of satisfying reporting requirements. If a government owned facility demonstrates that the use of the accrual method of accounting is not applicable to the facility, and that a cash or modified accrual method of accounting more accurately reports the facility's financial operations, the Department shall permit the provider to use a cash or modified accrual method of accounting.

Section 2.050 **Records.** The provider must maintain statistical and accounting records in sufficient detail to support the five most recent annual cost reports submitted to the Department.

Section 2.060 **Conflicts.** If conflicts occur between the rules for ICFs/MR and generally accepted accounting principles, then the rule will prevail.

Section 2.070 **Certification of reports.** Required reports must be accompanied by a signed statement attesting to the accuracy of the information submitted on the required reports.

Section 2.080 **Deadlines, extensions, and rejections.**

A. The facility must submit the required annual cost reports to the Department by April 30. The annual cost report must cover the reporting year ending on December 31 of each year. A facility that terminates participation in the medical assistance program during a reporting year must submit the required annual cost report covering the period from January 1 of that reporting year to the date of termination. The annual cost report must be submitted within four months after termination.

B. The Department may reject any annual cost report filed by a facility that is incomplete or inaccurate or may require supplemental information. The corrected report or the supplemental information requested must be returned to the Department within 20 days of the request or the report must be rejected. The Department shall extend this time if the facility submits a written request and if the extension of time will not prevent the Department from establishing rates in a timely manner. Except as provided in item C, failure to file the required cost report and other required information or to correct the form of an incomplete or inaccurate report shall result in the rejection of the cost report and in a reduction of the payment rate as specified in Section 2.100. Except as provided in item C, failure to provide the additional information shall also result in a reduction in the payment rate unless the total payment rate can be calculated by the disallowance of the cost for which the additional information was requested, in which case no rate reduction shall occur.

C. Except for the copy of the lease agreement, failure to provide the information in Section 2.020, item I and Section 2.030, item C when the lessor refuses to provide the information shall not result in a reduction in the payment rate as specified in Section 2.100 if the lease or rental agreement was arms-length.

Section 2.090 **Effective date of total payment rate.** The Department shall provide notice to each facility of its total payment rate by September 1 of each year. The total payment rate is effective from October 1 of that year to September 30 of the following year.

Section 2.100 **Noncompliance.** A facility's failure to comply with reporting requirements subjects the facility to items A to C.

A. Except as provided in item D, if a facility fails to provide reports, documentation, and worksheets, the Department shall reduce the facility's total payment rate to 80 percent of the total payment rate as provided in item B.

B. The reduced total payment rate is effective:

(1) 21 days after a written request for additional information under Section 2.080, item B is sent by the Department, except when an extension has been granted pursuant to that item;

(2) for failure to provide the information required on April 30; or 21 days after a written request for the correction or completion of inaccurate reports or financial statements or at the expiration of such further time period as the Department may allow.

C. Reinstatement of the total payment rate upon remedy of the failure or inadequacy is retroactive.

D. The penalty in this section does not apply to a facility identified by the commissioner as participating in the proposed performance based contracting demonstration waiver project.

Section 2.110 **Audits.** Facility audits are subject to items A to C.

A. The Department will subject reports and supporting documentation to desk and field audits. Retroactive adjustments may be made as a result of desk or field audit findings. If the audits reveal inadequacies in facility record keeping or accounting practices, the Department may require the facility to engage competent professional assistance to correct those inadequacies within 90 days of the written notification by the Department so that the field audit may proceed.

B. Field audits may cover the four most recent annual cost reports for which desk audits have been completed and payment rates have been established. The field audit must be an independent review of the facility's cost report. All transactions, invoices, or other documents that support or relate to the costs claimed on the annual cost reports are subject to review by the field auditor.

C. A field audit shall be completed within 90 days after commencement for a provider with a single facility or within 180 days for a provider group.

Section 2.120 Suspension of audit. The Department may suspend a field audit for good cause or if the provider's books and records are unavailable or unauditible. The Department shall notify the provider in writing when a field audit is suspended. If the field audit is suspended, the Department shall indicate in writing the date the field audit will again commence. If the field audit is suspended because the provider's books and records are unavailable or unauditible, the Department shall follow the procedures in Section 2.110, item A. The deadline for completion of the field audit must be extended by the length of the suspension.

Section 2.130 Adjustments. Adjustments to the total payment rate may be made as a result of desk or field audit findings or subject to Section 7.030. Desk or field audit adjustments are made according to items A to G.

A. Field audit adjustments must be made only if the adjustment would result in at least a five cent per resident day or \$2,000 cost change, whichever is less.

B. Retroactive adjustments to the facility's total payment rate must be made as a result of desk and field audit findings, except that field audit adjustments shall be limited by the restrictions in item A.

C. If the adjustment results in a payment from the provider, payment must be made by the provider within 120 days after the date of the written notice. If the payment rate adjustment results in a payment to the provider, the medical assistance program payment to the provider must be made within 120 days after the date of the written notice. Interest charges must be assessed on balances outstanding after 120 days of written notification to the provider.

D. If an appeal has been filed, any payments owed by the provider or by the Department must be made within 120 days of the written notification to the provider of the Department's ruling on the appeal. Interest charges must be assessed on balances outstanding after 120 days of written notification of the Department's ruling on the appeal.

E. The annual interest rate charged in items C and D must be the rate charged by the Minnesota Department of Revenue for late payment of taxes, which is in effect on the 121st day after the written notification. The Department may waive interest charges on overpayments incurred by ICFs/MR for the period October 1, 1987 to February 29, 1988, if the overpayments resulted from the continuation of the desk audit rate in effect on September 30, 1987, through the period. Interest charges are nonallowable charges under Section 5.000,

item G.

F. Any changes, adjustments, or amendments which result in a reimbursement to the facility shall be subject to the limitations in Section 7.022.

G. Adjustments to the payment rate are limited to the four complete reporting years preceding the date on which an audit commences. Changes in the total payment rate which result from desk or field audit adjustments to cost reports for reporting years beyond the four most recent annual cost reports, must be made to the four most recent annual cost reports, the current cost report, and future cost reports to the extent that those adjustments affect the total payment rate established by those reporting years.

Section 2.140 **Amended reports.** Amendments to previously filed annual cost reports are governed by items A to E.

A. Facilities may file amendments to previously filed cost reports when errors or omissions in the annual cost report are discovered which would result in at least a five cent per resident day or \$2,000 adjustment, whichever is less for each reporting year.

B. The Department shall make retroactive adjustments to the total payment rate of an individual facility if the amendment is filed within 14 months of the original cost report to be amended. An error or omission for purposes of this item does not include a facility's determination that a prior choice between alternative methods of reporting costs permitted under the rules was not advantageous and should be changed. Errors or omissions which do not meet the threshold amount required for an amended cost report, or errors or omissions discovered after the 14-month time limitation, may be claimed at the time of the field audit.

C. Providers must not amend a previously filed cost report for the purpose of removing costs of services for which the facility seeks separate billing.

D. The amended cost report must consist of the corrected cost report pages resulting in the amendment and supporting documentation.

E. Providers can file no more than two amendments to a previously filed cost report in which they have found errors or omissions.

Section 2.150 **False reports.** If a provider knowingly supplies inaccurate or false information in a required report that results in an overpayment, the Department shall do one or more of the following:

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- A. immediately adjust the facility's payment rate to recover the entire overpayment;
 - B. terminate the Department's agreement with the provider; and/or
 - C. prosecute under applicable state or federal laws.

Section 2.155 Treble damages. Any vendor of medical care who willfully submits a cost report, rate application or claim for reimbursement for medical care which the vendor knows is false representation and which results in the payment of public funds for which the vendor is ineligible shall, in addition to other provisions of Minnesota law, be subject to an action by the State of Minnesota for civil damages. The damages awarded shall include three times the payments which result from the false representation, together with costs and disbursements, including reasonable attorneys' fees or their equivalent.

Section 2.160 Reporting real estate taxes, special assessments, and insurance. The facility shall submit a copy of its statement of real estate taxes payable for the calendar year in which the rate year begins and a copy of the invoices for the real estate insurance and professional liability insurance for coverage during the rate year by June 30 each year. Except as provided in this section, the Department shall disallow the costs of real estate taxes, special assessments, real estate insurance, and professional liability insurance, if the documentation is not submitted by July 31. The disallowance shall remain in effect until the facility provides the documentation and amends the cost report under Section 2.140. The historical operating cost for the special operating costs during the reporting year must be shown on the cost report.

SECTION 3.000 COST CLASSIFICATION AND ALLOCATION PROCEDURES.

Section 3.010 Cost classification. Costs must be classified as provided in this section. Total costs for each category must be compiled and recorded on the cost report.

A. The provider shall classify costs using direct identification of costs, without allocation, by routine classification of transactions when costs are recorded in the books and records of the facility.

B. In addition to cost which must be included in the administrative cost category, indirect costs such as generic supplies that cannot be readily assignable to one or more cost categories must be classified to the administrative cost category.

C. Except for persons in top management, the compensation of any person having multiple duties, including persons who have only nominal top management responsibilities,